March 1989

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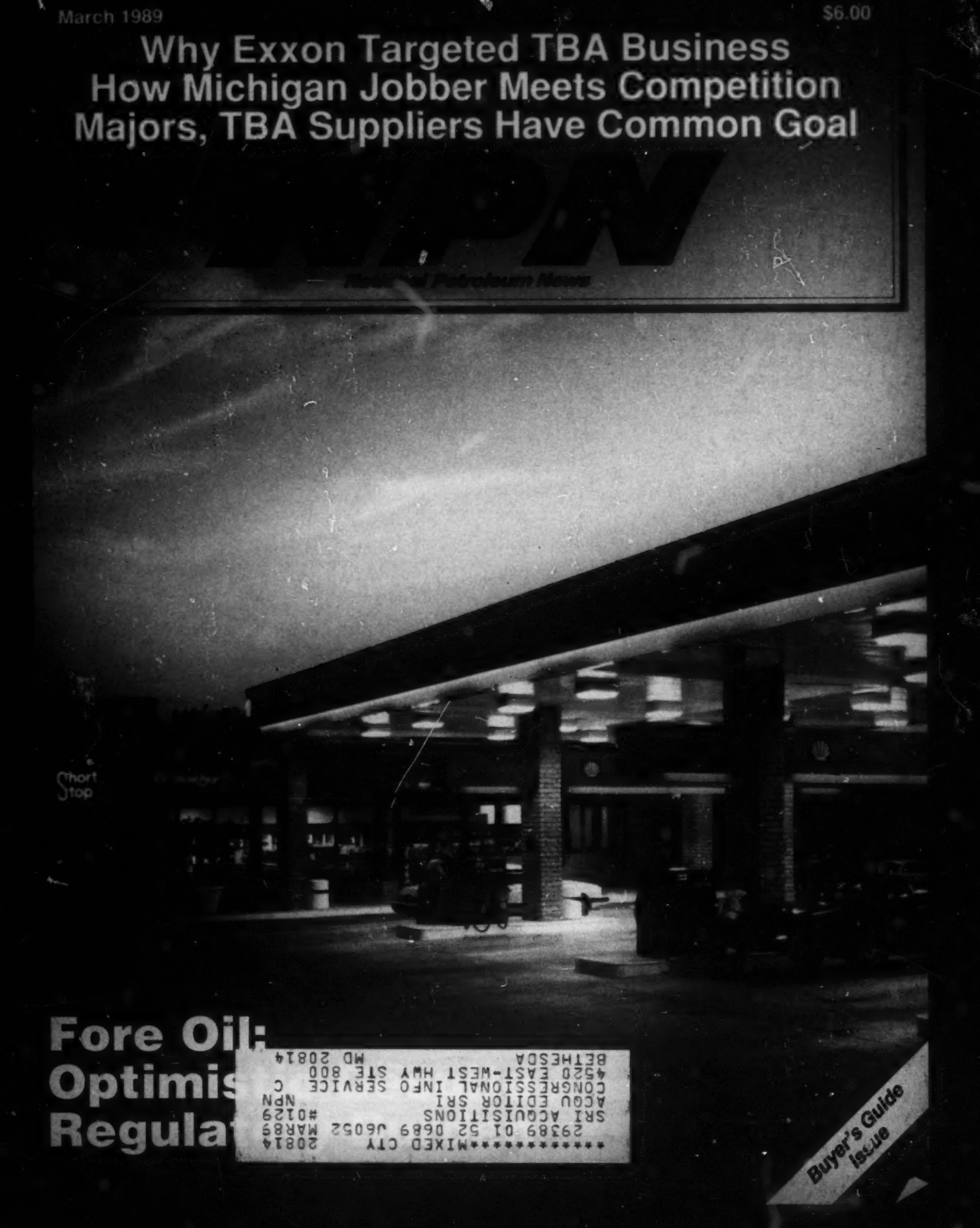
How Michigan Jobber Meets Competition
Majors, TBA Suppliers Have Common Goal

National Petroleum News



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Editor's Viewpoint

Baseball's LeRoy "Satchel" Paige advised never looking behind because someone might be gaining on you. That might apply on a baseball diamond (though I doubt it) but not in business.

Marketers and oil companies—understandably transfixed on immediate concerns such as underground tank and financial responsibility regs—have suddenly realized that something else has, in fact, been gaining on them. And it will now take a concerted effort of catchup ball to overcome it.

Little attention was given to amendments to the Petroleum Marketing Practices Act (PMPA) until they were very nearly passed last year. It was a surprising development because service station dealer groups didn't begin lobbying for the amendments until near the end of the legislative session; ominous because they've already begun working on it this year.

Concern centers on three areas of the amendments. One expands the definition of a franchise to include any contract "economically necessary to the operation of the franchise." A contract related, for instance, to a marketing program you decide to drop could be considered part of the franchise agreement, so you might not be able to eliminate that program unless you terminated or did not renew the entire franchise on PMPA grounds. And that could be made more complicated by a second provision in the amendments which requires not only that a dealer be notified 90 days prior to expiration of an option to renew an underlying lease or an option to purchase the property—but also that a jobber couldn't non-renew the franchise for loss of the underlying lease if the dealer retained possession of the property himself.

A third stipulation would change the PMPA's defined standard for service station contract provisions with a "fair and reasonable" standard. Sounds fine. Who'd argue with "fair and reasonable?" Answer: Just about everyone. What, after all, is fair and reasonable? And to whom? That may need to be determined in a courtroom, as will "economically necessary." Mobil's general sales manager Tom DeLoach says the amendments have "more arms and legs than we can stand." They invite litigation. The Petroleum Marketers Assn. of America refers to the amendments as a "lawyers' welfare bill."

The majors have mounted an effort to block passage of the amendments, but "big bad oil" may not get much sympathy. Jobber support is needed to let legislators know that small and medium size businessmen in this industry are also opposed to the amendments, says Amoco marketing vice president Robert Rauscher. The amendments, he states, "could cripple a lot of people . . . They undermine the basic foundation of business relations" between dealers and their jobber and oil companies suppliers.

—Frank M. Victoria

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NATIONAL PETROLEUM NEWS

14 Regional News

14 West
Reopened refinery good news for Rockies marketers

15 Midwest
Travel plazas offer 24-hour postal service

19 East
Mobile fast food unit offers low-cost pullout option

20 South
Retail investments assist Harken turnaround

23 General News

23 Is "Big Oil" vulnerable to takeovers?

24 Secondary containment essential to piping

24 Amoco shaves capital spending budget

24 Exxon to honor Citibank's Citicard

26 Heating oil tanks less likely to leak

26 Smedley named NPN managing editor

26 Retired admiral new energy secretary

28 Four states increase gasoline taxes

28 Phillips increases downstream expenditures

31 Independents want Bush to cut imports

31 More firms add fleet credit cards

32 Features

32 Cover Report
How regulatory burden weighs on Fore Oil

38 TBA
How oil companies, suppliers cooperate to boost TBA sales

44 TBA
How Exxon excels in TBA

48 Marketing
Michigan jobber digs in to meet competition

57 O&E Management—Howard Upton
Environmental ethics

59 Marketing Management—Paul Forbes
First management skill: listening

60 Legal Tips—Sam Borenkind
Guide for using contractors

65 Buyer's Guide
- Products & Services
- Suppliers

Departments

62 About Oil People
7 Ahead of the News
53 Briefs
9 Catching Up
140 Classified
52 Coming Meetings
3 Editor's Viewpoint
10 Marketplace
54 Product Showcase
10 Trends

The government's environmental mandates—underground tanks, Stage II vapor recovery—are stretching many marketers' financial capabilities to the limit. Here's how Florida marketer Robert "Scott" Fore plans to survive the onslaught. **Page 32**

The resurgence of oil-company interest in the automotive aftermarket has traditional TBA suppliers looking for ways to join forces to become tougher competitors in the $90-billion market. **Page 38**

Michigan jobber Mooney Oil is pursuing a 10-year plan for growth in convenience stores and car washes, all built on its solid base of gasoline sales. **Page 48**

Downstream Puts Profits At Near-Record Levels

Not since the early '80s have the top oil companies made as much money as last year. Downstream nets topped about everything in sight, pushing corporate profits to levels that for many were close to all-time highs.

Percentagewise, downstream earnings looked better than they really were, though some were exceptional. Exxon, for example, had a 2000% increase in profits—$669-million in 1988 vs. $32-million in 1987. It made $5.3-billion last year but it also made $5.5-billion in 1984 and $5.4-billion in 1986, so this was only its third best year. Shell had a respectable report for 1988—$1.2-billion but this was exceeded by four or five other years.

Fourth Quarter And Full Year Earnings

(millions of dollars)

	4th Qtr. 1988	4th Qtr. 1987	% Chng.	Full Year 1988	Full Year 1987	% Chng.
Exxon	$1,380.0	$1,555.0	(11.3%)	$5,260.0	$4,840.0	8.9%
Mobil	469.0	474.0	(1.1)	2,094.0	1,348.0	55.3
Chevron	175.0	234.0	(25.2)	1,768.0	1,250.0	41.4
Texaco	296.0	(4,673.0)	—	1,304.0	(4,135.0)	—
Shell	212.0	436.0	(51.4)	1,239.0	1,230.0	0.7
Amoco	375.0	377.0	(0.5)	2,063.0	1,360.0	51.7
Arco	391.0	340.0	0.3	1,583.0	1,224.0	29.3
Tenneco (a)	598.0	(176.0)	—	822.0	(218.0)	—
Conoco	153.0	82.0	86.6	391.0	277.0	41.2
Sun Co.	76.0	83.0	7.5	7.0	348.0	—
Phillips	135.0	33.0	309.1	650.0	35.0	1,757.1
Unocal	141.0	29.0	386.2	480.0	181.0	165.2
Marathon*	123.0	(13.0)	—	506.0	442.0	14.5
Amerada Hess	66.3	(79.6)	—	124.2	229.9	(46.0)
Ashland	96.0	80.0	2.0	1st qtr. '89, fiscal ends 9/30		
Dia. Sham. R&F	27.4	3.3	730.3	53.5	1.6	3,243.8
Pennzoil	36.1	19.1	89.0	1,500.0	45.5	3,296.7
Kerr-McGee	33.4	14.7	127.2	110.1	81.0	35.9
Murphy	25.7	(61.7)	—	38.7	(43.6)	—
Amer. Petrofina	32.9	13.6	141.9	132.9	83.3	59.5
Citgo	NA	NA	—	NA	NA	—
Total N.A.	39.6	(2.9)	—	72.7	(26.8)	—

*Operating income

NB – Both Southland and Cumberland Farms, both C-store chains which are major gasoline marketers, are privately owned and do not issue financial reports.
(a) Includes Tenneco Oil; Tenneco sold its oil division in the fourth quarter and abandoned petroleum marketing.

Downstream, The Full Year Earnings Are Downright Handsome

(millions of dollars)

	4th Qtr. 1988	4th Qtr. 1987	% Chng.	Full Year 1988	Full Year 1987	% Chng.
Exxon	$555	$374	48.4%	$1,804	$509	254.4%
Domestic	255	82	211.0	669	32	2,000.0
Foreign	300	292	2.7	1,135	477	137.9
Mobil	395	(9)	—	996	232	329.3
Domestic	221	53	317.0	554	123	350.4
Foreign	74	(62)	—	442	109	305.5
Chevron	57	163	(65.0)	622	191	225.7
Domestic	160	115	39.1	571	117	388.0
Foreign	(103)	48	—	51	74	(31.1)
Texaco	410	85	382.3	1,116	130	758.4
Domestic	245	(3)	—	651	(36)	—
Foreign	165	88	87.5	465	166	180.1
Shell	124	93	33.3	519	224	131.7
Amoco*	266	69	285.5	897	216	315.3
Arco	88	50	76.0	368	150	145.3
BP-America	NA	NA	—	NA	NA	—
Conoco	112	73	53.4	363	177	105.1
Phillips**	169	64	164.1	471	201	134.3
Sun R&M	73	22	231.8	277	46	500.2
Marathon	NA	NA	—	485	183	65.0

*Worldwide **Operating income

● TRENDS

Auto Sector Shines In Dull Lube Market

According to one industry source, the overall growth pattern—if indeed there is any measurable growth—of the U.S. lubricant business over the next three years or so should exhibit the same snail's pace movement the industry has come to know over the past decade. But, for certain segments of the industry—automotive lubricants, for example—the outlook might not be all that bad.

As is the case in most mature industries, growth for individual marketers is achieved not by expanding the overall demand factor in the market, but by getting a step ahead of the competition and increasing market share. The breakneck pace of growth of the fast lube business is a sure sign that innovation targeted toward taking away existing market shares from the more traditional motor oil outlets has become a dominant—and quite successful—strategy for aggressive marketers in that field. This aggressive market penetration has already given fast lube outlets an estimated 20% of the installed oil change market and that market share is growing fast.

The U.S. lubricant industry may not be on a fast track in terms of basic market expansion. But some marketers are going to make a good living from their share of those three billion gallons and $12-billion in sales per year.

Nonetheless, barring this end of the industry, slow growth is a common theme running through most prognostications for the lubricant industry, and a new forecast released by The Freedonia Group, Inc., a Cleveland-based independent research organization, is no exception. According to analyst Kevin Swift, who prepared the final report for the group, the overall volume of lubricant sales "will continue to be hindered by stagnant or slow growing end-use industries, the increased use of plastics and solid lubricant-like materials (i.e., synthetics) and the widespread availability of better performing, longer lasting lubricants." Lubricant sales volume is expected to increase only nominally to 3.1-billion gals. in 1992, says Swift. The value of those sales is expected to be $12.2-billion.

"Commercial products such as engine oils, transmission/hydraulic oils, gear oils and aviation oils will exhibit the most rapid growth," the report concludes. "Industrial products such as industrial lubricating oils and greases and metalworking oils will fare much more poorly."

Commercial lubricants are forecast to increase at an annual rate of 1.9% through 1992, with aviation oils (plus 4.6% per year) and automotive oils (up 1.9% annually) leading the pack. The market for automotive oils, the report says, will increase from 1.614-billion gals. in 1987 to 1.775-billion gal., a gain of 161-million gals.

Sales of industrial products, on the other hand, which have been on a steadily declining curve since 1975, will not grow at all by 1992, according to the study.

Data from two other industry groups, the National Petroleum Refiners Assn. [*NPN*—Dec. '88, p25] and the Independent Lubricant Manufacturers Assn. [*NPN*—Feb. '89, p31] showed surprising increases in lubricant sales in 1987 (about 5.7% in the NPRA report). But most analysts consider those increases to be somewhat temporary "bubbles" in the overall slow growth trend in lubricant volumes. The pattern of industry growth foreseen typically averages between 1% and 2% compounded annual growth through the mid-1990s at least.

There are very good reasons why nobody expects lubricant sales to begin soaring again. Basic changes in the quality and performance characteristics of the basic product along with evolving technologies in end-user businesses has nipped the market growth possibilities of many lubricants. Radically extended service lube service intervals on late-model automobiles is just one example—with Detroit automakers recommending oil change intervals of 7,500 miles and more, except of course in "severe service" situations.

Fortunately, the hard driving new petroleum marketers in the retail lubricant business are not letting Detroit's extended interval line go unchallenged. They're doing the industry, and the American motorist, a service by reminding us that even today's highly sophisticated engines perform better and last longer at oil change intervals of about 3,000 miles.

—by Donald M. Smith

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

DECEMBER	Gasoline (all types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.953	$0.885	$0.930	$1.101
Regions:				
Northeast	1.010	.930	.962	1.153
North Central	.947	.901	.925	1.112
South	.955	.885	.935	1.079
West	.915	.864	.904	1.070

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

STOCKS (add 000 bbl.)

	2/3/89	2/5/88
Gasoline (total)	243,772	241,142
Gasoline (unleaded)*	161,267	146,725
Jet Kerosine	38,039	38,115
Distillates	117,148	123,197
Residual	45,374	45,077

** Included in gasoline total*
Source: American Petroleum Institute

"Big Oil" May No Longer Be Immune From Takeovers

Now that the RJR Nabisco deal is a matter of history and $25-billion is no longer regarded as an obscene price to pay for an acquisition, Wall Streeters believe that one or more like it could happen in 1989, perhaps penetrating for the first time the $30-billion-plus stratosphere in the process.

It's not likely that a domestic oil company would be involved in such financial shenanigans, however, because there's only one that might be truly eligible. And it's so big that its elephantine proportions give it an untouchable status. That would be Exxon U.S.A., the Houston goliath which has more than $70-billion in assets and a common-stock value of $60-billion.

It would take some real doings to launch a run on Exxon, but again, considering all that's happened in the takeover arena, can this be discounted just because common sense says so? Money is the only thing that counts and if there's a buck to be made, or tens of millions of them, someone will find a way to rake them in.

Below Exxon's towering posture, the field's wide open, however.

Consider, for example, the top eight oil companies—the hierarchy of the U.S. petroleum industry. These would include Mobil, Chevron, Texaco, Shell, Amoco, BP America and Arco. But Shell and BP America have to be scratched because they are wholly-owned subsidiaries of international companies which are more interested in expanding their American holdings than in diluting them.

To evaluate the various companies, a simplified approach will help put things in perspective: look at their assets, the number of common shares that are outstanding, the New York Stock Market price per share, and the market value, i.e. total shares multiplied by the share quotations.

On this basis, Mobil ranks No. 2 in assets but its common-stock value is technically only $18.5-billion. In the same vein, Chevron has $34.5-billion in assets but only $15.4-billion in common-stock values. Texaco, whose figures change constantly as it sells off various assets to keep ahead of the bankruptcy judge, had $33.9-billion in assets at the end of 1987, but a market value of $12.2-billion. (At year's end there were signs that Texaco might be buffeted by another takeover attempt in early 1989).

Amoco is the real gem. With assets of $24.8-billion and a price of $75 per share, its market value is estimated at $19.4-billion. Arco also has a high per share value, $80, but with fewer common shares in the open its total value is only $14.2-billion.

So there you have it: six oil companies

(Continued on page 24)

The New Mating Game

	Asset Value (Bln $)	Common Shares Outstanding (millions)	Share Value 12/88 ($)	Total Market Value (Bln $)	Institutional Holdings (%)	Hi-Lo Shares 1988 ($)
Exxon	$74.1	1,379	$44	$60.7	25%	($47/$36)
Mobil	41.1	411	45	18.5	45	(49/35)
Chevron	34.5	342	45	15.4	41	(52/36)
Texaco	33.9	243	50	12.2	40	(52/31)
Shell	29.6	(Wholly-owned subsidiary)				
Amoco	24.8	258	75	19.4	42	(80/63)
BP America	23.3	(Wholly-owned subsidiary)				
Arco	22.7	178	80	14.2	55	(90/63)
Conoco	13.0	(Wholly-owned subsidiary)				
Sun	12.6	106	32	3.4	48	(33/28)
Phillips	12.1	228	20	4.6	57	(22/10)
Unocal	10.1	119	38	4.5	51	(40/24)
Marathon	9.5	(Wholly-owned subsidiary)				
Coastal	8.0	45	33	1.5	48	(35/23)
Amerada Hess	5.3	84	29	2.4	53	(33/22)
Ashland	4.1	30	33	1.0	40	(37/26)
Dia. Sham. R&F	0.9	—	14	—	—	(7/17)
Pennzoil	3.3	41	73	3.0	46	(65/81)
Kerr-McGee	3.1	48	37	1.8	77	(42/30)
Murphy	2.1	34	29	1.0	42	(35/20)
Amer. Petro.	1.8	13	67	0.9	2	(75/45)
Citgo	1.2	(Jointly-owned by two companies)				
Getty	(Closely held, near-private ownership)					
Southland	—	(Privately-owned)				
Cumberland Farms	—	(Privately-owned)				

NB—Asset values are those given by the companies in their annual and/or interim reports; Market values represent outstanding common shares times the New York Stock Market mid-December quotations; all numbers have been rounded off for easier assimilation. Sources: Business Week, NPN files, Wall St. Journal, N.Y. Times.

Secondary Containment Essential To Piping

With the release of the Environmental Protection Agency's underground storage tank rules, marketers are becoming more aware of the financial liabilities of a leaking tank. The EPA regs are raising numerous questions about the frequency of a release and what is the best preventative medicine for piping and tanks.

Altho gh the EPA does not mandate secondary containment, more and more marketers are taking a look at this alternative to avoid a confrontation with a leaking UST system.

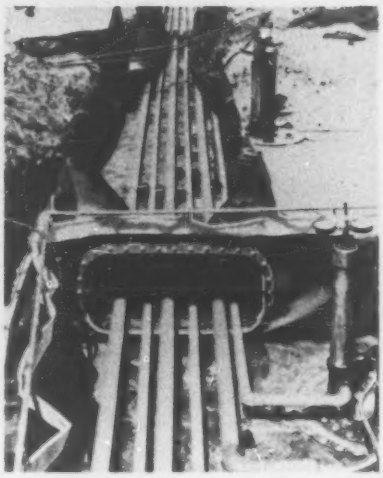
A six-month study recently conducted by Cooley, Inc., Pawtucket, R.I., a developer of reinforced membranes, shows that secondary containment for tanks and piping is essential to help eliminate the contamination of soil and groundwater.

Even fuel oil tank owners, which are not mandated by the federal UST regs, are exploring installing secondary containment in piping systems because of the financial liabilities that could arise from a leaking system, says Chris Semonelli, national sales manager for Cooley. "Secondary containment for piping and tanks has not been properly addressed. Marketers need to be more aware of the entire system if they want to protect themselves from leaks," he says.

After exploring various secondary containment methods, the report states that secondary containment can be a viable means of solving a costly problem.

According to the Cooley report, protected piping was never intended to be overlooked and its importance cannot be overstressed. Cooley says that 60-85% of all leaks occur in piping and that piping failures occur more frequently than the tank.

Cooley stresses that while tanks are manufactured in a controlled environment, a plant where the process is regulated by rules covering material, construction and



welding, piping is put together at an outdoor work site where uncontrollable variables such as weather and the site itself come into play. Thus, the protection of piping in actual installations is even more important than quality tank installations themselves, explains Semonelli.

For example, the report states, "unions represent the most traditional method of joining pipes in the United States. However, unions were made for aboveground use only and weren't intended to be buried. They are susceptible to leaks from sideway stresses. Unions invariably account for many leaks." Also, Cooley says swing joints, two elbows connected by a short piece of pipe, are also leak prone.

The report states that secondary containment, which is currently mandated in areas judged to be "high risk,"—such as the contamination of groundwater—can eliminate a number of costs, both actual and potential. More specifically, secondary containment liners have the ability to contain leakage, monitor leakage and recover leakage.

Amoco Capital Spending Declines

Amoco Corp. approved a 1989 capital and exploration budget of $3.5-billion, an 8% decrease from the 1988 budget of $3.8-billion.

Amoco chairman Richard M. Morrow says the 1989 budget represents a 19% decrease compared to the $4.3-billion the company spent last year, which includes $900-million for the acquisition of Tenneco's Rocky Mountain Div. However, the $4.3-billion does not include any spending of Dome Petroleum Ltd.

Amoco's ability to carry out its spending depends on a number of factors, including price levels for crude oil, natural gas and refined products, says Morrow.

Citibank's Citicard Honored By Exxon

Exxon Co. U.S.A., and Citibank are collaborating on a program which allows New York Citibank customers to purchase gasoline and other products with Citicards (an electronic banking card) at Exxon stations throughout the nation.

Those eligible for the Exxon/Citibank arrangement are the more than 1-million Citibank checking account customers who carry the card. The Citicards are honored at about 3,800 Exxon stations in the District of Columbia and 28 states, including more than 500 in metropolitan New York.

Customers present the plastic to the station attendant and on a special key pad enter their personal identification number (PIN). There is a daily ceiling for purchases of $500 in Exxon products and services. Citibank serves consumers throughout the New York area with 264 branch locations and 1,100 electronic Citicard Banking Centers.

Customers using the Citicard at Exxon stations will qualify for the "discount for cash" price offered on gasoline at most Exxon stations, says a company official.

(Takeovers . . . continued from page 23)

with market values ranging from $12-billion to $19-billion. Keep in mind, however, that if any of these companies would be put into play, their stock values would rise significantly. In the case of RJR Nabisco, for example, common shares doubled in value, from $56-$112, before it was all over.

Unquestionably, these would be big mouthfuls to chew if someone tried to convert any of them into takeover targets. But there are two other things to remember in this connection: When Chevron bought Gulf Oil five years ago, the price it paid, $13.5-billion, was believed to be so stratospheric it would never be matched by the speculators and banks. RJR Nabisco's $25-billion just about doubled that figure. Financial circles no longer look at $10-billion to $20-billion bids as impossible to attain. And $5-billion to $10-billion would be peanuts.

Here's another factor that merits consideration: Traditionally institutional investors held on to their stocks and clipped dividend coupons. But in recent years, a new breed of money managers has come on the scene. They're younger and they want the action of the new markets. Institutions now pack a hefty wallop and play a different game.

Institutions currently hold more than 50% of the stock in at least three oil companies—Phillips (57%), Arco (55%) and Unocal (51%). Both Phillips and Unocal have been subjected to runs in the past but managed to escape the noose by piling up big debts. Could they do it again, especially if the institutions decided to cash in their chips?

On the previous page is a simplified boxscore of the top 25 oil companies, any one of which (except Exxon, Shell and BP America) could be involved in street fights in 1989.

States Increase Gasoline Taxes

State gasoline taxes increased in Iowa, Mississippi, Oregon and South Carolina this past January, bringing the average state gasoline tax to 15¢ a gal., according to the Highway Users Federation.

The tax rose to 2¢ in Iowa (20¢) and Oregon (16¢) and a penny in Mississippi (18¢) and South Carolina (16¢).

Diesel fuel also increased in these four states. In Iowa, the diesel tax increased to 22.5¢, Mississippi 18¢ and 16¢ in Oregon and South Carolina. Federal gasoline taxes in every state are an additional 9¢ a gal. and 15¢ for diesel.

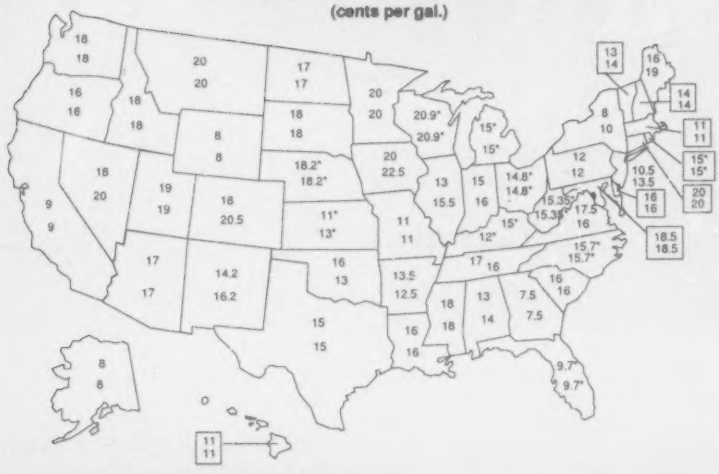
Also, motor fuel taxes rose in 17 states during last year as a result of previously enacted legislation.

The Highway Users Federation reports that these and other taxes comprise a third or more of the average pump price of gasoline, making it one of the most highly taxed commodities in the United States.

Motor Fuel Tax Rates

Gasoline prices top, diesel bottom

(cents per gal.)



* = Variable tax expressed in cents per gal.
□ = Local option tax.
Source: Highway Users Federation, Jan. 1, 1989.

Tenneco Sells Wholesale Business To New Company

Stratus Resources, Inc., of New York, a recently-formed company, has purchased Tenneco's wholesale marketing business which is located primarily in the Southeast from Florida north to Maryland and New York.

Tenneco has only one more marketing asset to dispose of before it is entirely out of the oil business—a small fuel oil jobbership in northern New York. Stratus reportedly is owned by a Chinese businessman who also holds a 33% interest in Singapore Refining Co.

Tenneco says the wholesale network consisted of wholly-owned terminals in Syracuse and Albany, N.Y., Newark, N.J., Baltimore, Md., Norfolk, Va., Blakely, Ga., St. Marks, Fla., and a one-third interest in Southern Facilities Terminals, which operates 15 terminals along the Colonial Pipeline.

Meantime, Tenneco has wrapped up its deal with Phillip Handy for its service chain network in the South, and its sale of 80 stations to Diamond Shamrock in the Southwest. Industry sources says Tenneco C-stores will be renamed Majik Markets and that the new holding company itself will be known as Tennacquo, Inc.

Phillips '89 Downstream Budget Hits $389-Million

Phillips Petroleum Co. moved even closer to the $1-billion expenditure plateau with its 1989 capital projects budget of $975-million, of which $389-million will be channeled into downstream activities. The downstream emphasis is almost 20% beyond what was appropriated in the 1988 budget, totaling $902-million.

The ethylene manufacturing capacity is to be increased by 1.5-billion pounds at their Sweeny, Texas refinery and petrochemical facility. As well as expanding its manufacturing capacity in several plastic lines at the Houston chemical complex.

Of the $510-million budgeted upstream, just over $400-million will be sunk into global exploration and production. More than 50% of that upstream amount is designated for overseas. Upstream expenses for 1988 were anticipated to be about $490-million.

Franchise, Processing Fees Cut By Gascard

Gascard, Inc., the California fleet fueling company, which has been on the brink of fiscal collapse, is now cutting the costs for processing fees and new franchisee fees.

The company's processing fee structure has been reduced so that "greater total fuel volume qualifies a franchisee for lower fees." The current average transaction cost stands at 2.24%, under the new structure, the per unit cost would be 1.05%.

According to Gascard, the company can endure its shrinking processing revenue because of its Distributive Authorization System (DAS) which affords franchisees and customers pre-purchase clearance, without the costs of similar equipment. Gascard envisions a glowing future for DAS, automation which its personnel developed. The company says DAS "will revolutionize transaction processing and substantially increases Gascard's lead in transaction processing technology."

The charge for purchasing a franchise in new areas has been reduced from $12,500 to $750. Present franchisees can close on new franchise agreements with no cost assessed to their existing territory.

Gascard reports that volume has taken an upturn, from 7-million gal. in January 1988 to between 8.5-million and 9-million gal./mo. That the company is on the move is perhaps best symbolized by its relocation—from La Jolla to Carlsbad, Calif., an address change that will save the fleet fueler approximately $20,000 per month.